

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 91-627-W/S - ORDER NO. 92-1028✓
DECEMBER 12, 1992

IN RE: Application of Heater of Seabrook,)
Inc. for Approval of New Rates and) ORDER APPROVING
Charges for Water and Sewer) RATES AND CHARGES
Customers in the Seabrook Service)
Area in South Carolina.)

This matter comes before the Public Service Commission of South Carolina (the Commission) by way of an Application of Heater of Seabrook, Inc. (the Company) for approval of a new schedule of rates and charges for its water and sewer customers on Seabrook Island in Charleston County, South Carolina. The Company's June 12, 1992 application and updated July 23, 1992 amended application were filed pursuant to S.C. CODE ANN. §58-5-240 (1976), as amended, and R.103-821 of the Commission's Rules of Practice and Procedure.

By letter dated June 24, 1992, the Commission's Executive Director instructed the Company to publish a prepared Notice of Filing, one time, in a newspaper of general circulation in the area affected by the Company's application. The Notice of Filing indicated the nature of the Company's application and advised all interested parties desiring participation in the scheduled proceeding of the manner and time in which to file the appropriate pleadings. The Company was likewise required to notify directly all customers affected by the proposed rates and charges.

Petitions to Intervene were filed on behalf of Steven W. Hamm, the Consumer Advocate for the State of South Carolina (the Consumer Advocate), the Town of Seabrook Island (the Town), and the Club at Seabrook Island, Inc. (the Club).

The Commission Staff made on-site investigations of the Company's facilities, audited the Company's books and records, and gathered other detailed information concerning the Company's operations. The other parties likewise conducted their discovery in the rate filing of Heater of Seabrook, Inc.

A public hearing relative to the matters asserted in the Company's application was held on November 12, 1992, at the Hearing Room of the Commission at 111 Doctor's Circle, Columbia, South Carolina. Pursuant to §58-3-95, of the S.C. CODE, a panel of three Commissioners composed of Commissioners Yonce, Frazier, and Arthur was designated to hear and rule on this matter. Darra W. Cothran, Esquire, represented the Company; Carl F. McIntosh, Esquire, and Elliott F. Elam, Esquire, represented the Consumer Advocate; Lucas C. Padgett, Jr., Esquire, and J. Sidney Boone, Esquire, appeared on behalf of the Club at Seabrook Island, Inc.; and Marsha A. Ward, General Counsel, and F. David Butler, Staff Counsel, represented the Commission Staff. The Town of Seabrook Island was not represented by counsel.

The Company presented the testimony of William E. Grantmyre, President of the Company, Freda Hilburn, Director of Regulatory Accounting; Jerry W. Tweed, Director of Regulatory Affairs; and David Parcell, Vice President/Senior Economist of Technical

Associates, Inc. to explain the services being provided by the Company, the financial statements and accounting adjustments submitted, the reasons for the requested rates, and the cost of capital requirements. The Consumer Advocate presented the testimony of Philip E. Miller of Riverbend Consulting, who analyzed the Company's Application and revenue requirements. The Town of Seabrook Island presented the testimony of Mayor Joel W. Thompson, who testified as to the concerns of the customers regarding the proposed increase. The Club at Seabrook Island, Inc. offered the testimony of Louis P. Dragoone and Dr. Charles H. Peacock, who testified concerning the quality of the effluent sold to the Club by the Company. The Commission Staff presented the testimony of Robert W. Burgess, Public Utilities Rate Analyst and I. Curtis Price, III, Public Utilities Accountant. Mary Ann Koontz, one of the Company's customers, also addressed the Commission.

FINDINGS OF FACT

1. The Company is a wholly-owned subsidiary of Heater Utilities, Inc.¹ The Company is a water and sewer utility operating in the State of South Carolina and is subject to the jurisdiction of the Commission pursuant to S.C. CODE ANN. §58-5-10 (1976) et seq. Application of Company; Grantmyre testimony.

2. The Company provides water service to 1,641 customers and sewer service to 1,526 customers on Seabrook Island, Charleston,

1. Heater Utilities is wholly owned by the Topeka Group, Inc. The Topeka Group, Inc. is a wholly owned subsidiary of Minnesota Power and Light Company.

South Carolina. Hearing Exhibit No. 20.

3. The Company purchases its water from St. John's Water Company, Inc. The Company has a 550,000 gallon storage tank and chlorine is the only chemical additive used in the water as required by DHEC. The Company maintains a sewerage treatment plant and 21 lift stations. Hearing Exhibit No. 20.

4. The Company's present rates and charges were approved by Order No. 91-231, dated April 1, 1991, in Docket No. 90-124-W/S. Hearing Exhibit No. 20; files of the Commission.

5. At present, the Company charges a basic facility charge of \$9.00 per month for water with meters less than one inch,² and a commodity charge of \$2.50 per 1,000 gallons used. For sewer service, the Company charges a residential monthly charge of \$22.00. Its commercial sewer rate is 2.6 times the \$9.00 basic facility charge for meters less than one inch, and 2.6 times a graduated basic facility charge for meters 1 inch or greater in size. The Company also charges a water service connection charge of \$200.00 per single family equivalent and a water plant impact fee per single family equivalent of \$300.00. Similar connection charges also apply for sewer service. The Company does not propose to change these non-recurring connection charges. The Company does not propose to change its reconnection fee of \$40.00 for water service and customer account charge of \$25.00 for water service. The Company proposes to increase its residential water rate to

2. This charge graduates as the meter size increases to one inch or greater.

\$13.80 per month for meters less than one inch (most residential units have a three-quarter or five-eighths inch meter) and to increase the monthly charges for larger meter sizes as well. The Company does not propose to change its commodity charge. The overall water increase requested amounts to 20.92%. The Company proposes to increase its residential sewer rate to \$30.00 per month. The Company proposes to change its commercial sewer rate to a monthly charge based on meter size. The Company proposes a \$30.00 monthly charge for meters of less than one inch, \$60.00 per month for meters of one inch, \$120.00 per month for 1.5 inch meters, \$280.00 per month for 2.0 inch meters, \$500.00 per month for 3 inch meters, \$750.00 per month for 4 inch meters, and \$1,000.00 per month for 6 inch meters. This amounts to an overall sewer increase of 39.74%. The Company does not propose to change the golf course irrigation charge of \$.25 per 1,000 gallons. Hearing Exhibit No. 20; Application of Company.

6. The Company asserts this requested rate increase is required because the Company has experienced substantial increases in the operating expenses of purchased water, property tax expense, testing fees for the wastewater treatment plant, insurance premiums, and depreciation expense resulting from plant upgrades and modifications. Since acquiring the water and wastewater systems from Utilities Services, Inc. in 1988, Heater of Seabrook, Inc. has invested funds for capital improvements totaling more than \$1,200,000.00. The major capital plant additions or renovations were the wastewater treatment plant expansion of .55 million

gallons per day, replacement of pumping equipment, renovations of sewer lift stations, meter installations and replacements, wastewater effluent monitoring wells, alarm systems, communications equipment and controls for the water booster pumps, and elevated storage tank. The Company asserts that the rate increase is necessary in order for it to earn a fair rate of return on its investment, which is necessary to maintain the financial integrity of the Company. The rate increase will enable the Company to maintain the quality of service to the customers and maintain customer satisfaction. The only rate increase requested for water service is an increase in the basic facility charge for all water customers. For sewer service, the Company has requested an increase in the flat rate monthly charges for residential and commercial customers. Grantmyre testimony.

The Consumer Advocate states through witness Miller that the Company's general expenses "have been increasing at an alarming rate over the past few years." Miller testimony. However, the Consumer Advocate does not support his conclusion by citing lower expenses in companies with similar characteristics, nor any other reliable statistical data. Therefore, the Commission must reject the Consumer Advocate's statement as a bare assertion, unsupported by facts or statistics. The rebuttal testimony of Company witness Grantmyre also addresses this issue, and provides further justification for the Company's expenses.

The Town of Seabrook proposes an adjustment of \$509,160 to capital expenditures and \$12,729 to depreciation, based on lack of

use of an agitator/aerator tank. These must be rejected, due to the fact that the tank in question was built per DHEC requirements. Statement, Town of Seabrook; Grantmyre rebuttal testimony. The Town also alleges that the plant system is substantially underutilized, since the community remains less than half built out. According to the Company's rebuttal testimony, all water distribution lines and sewer lines, force mains, and lift stations are utilized to serve the existing customers at Seabrook. Further, the Commission rejected this contention in Order Nos. 91-231 and 91-444, in the previous docket for this Company. The deduction of availability fees from rate base and depreciable property successfully recognizes any alleged underutilization.

7. The Company proposes in its amended application that the appropriate test period to consider its requested increase is the twelve-month period ending March 31, 1992. Hilburn testimony. The Staff concurred in using the same test year for its accounting and pro forma adjustments. Price testimony.

8. Under its presently approved rates, the Company states its operating margin after interest and after accounting and pro forma adjustments is (5.35%) for water and (17.02%) for its sewer operations. Grantmyre testimony; Application of Company, Revised Exhibit S. The Company seeks an increase in its rates and charges for water and sewer service which would result in operating margins of 7.93% for water operations and 9.94% for sewer operations. Application of Company, Revised Exhibit S.

9. Under the Company's presently approved rates, the Company

states that its combined operating revenues for the test year, after accounting and pro forma adjustments, are \$1,085,735. The Company seeks an increase in its rates and charges for water and sewer service in a manner which would increase its operating revenues by \$314,856. Application of Company, Revised Exhibit C.

10. Under the Company's presently approved rates, the Staff found that the Company's per book operating revenues for the test year were \$1,090,994 after accounting and pro forma adjustments. The Staff calculated the proposed increase to be in the amount of \$316,499. Hearing Exhibit 19.

11. The Company asserts that under its presently approved rates, its total operating expenses for the test year, after accounting and pro forma adjustments are \$1,001,568. Application of Company, Revised Exhibit C. Staff concluded that the Company's operating expenses for the test year, after accounting and pro forma adjustments, are \$970,093. Hearing Exhibit No. 19. Staff arrived at this proposal after making the following adjustments to the Company's expenses:

(A) Purchased Water Adjustment

The Company and the Staff proposed to adjust purchased water. The Consumer Advocate did not propose an adjustment. Staff found in its audit that the Company's non-account water was 16.69% of total water purchased. The Commission held in Docket No. 90-124-W/S that a level of non-account water of 7.54% was acceptable. Therefore, Staff proposed an adjustment to disallow 9.15% or (\$22,159) from purchased water. With the Accounting

Department's adjustment for purchased water, the total recommended Staff adjustment to O&M Expenses is (\$43,281). Hearing Exhibit Nos. 19 and 20; Price testimony; Burgess testimony. The Company's adjustment of (\$27,957) includes a decrease of purchased water costs by 10%, based on the annualization of purchased water at test-year prices of St. John's Water Company prices. Price testimony.

(B) Rate Case Expenses

The Company's adjustment to O&M Expenses was (\$2,286), based on amortizing one-third the estimated cost of the present rate case, along with the amortization of costs for Docket No. 90-124-W/S. The Company was unable, however, to produce any billings for the current rate proceeding which would allow Staff to verify Company's estimates at the time of the audit. The estimates were, therefore, not known and measurable. In any event, Staff proposes an adjustment of (\$14,353) based on such data as was presented by the Company up to the day of the hearing. The Consumer Advocate recommended that the adoption of one-third of the actual costs of this proceeding be allowed. Price testimony Exhibit 19; Miller testimony.

(C) Salaries and Wages

The Company adjusted O&M Expenses in the amount of \$11,782 to annualize the salaries and wages. Also, the Company and the Staff proposed to adjust general expenses in the amount of \$282.00 to annualize the office salaries and wages for the test year. Concomitantly, the Company and the Staff proposed to adjust

pensions and employee benefits to reflect group medical and long term disability insurance costs at year-end wage levels, which amounted to \$488.00 in general expenses. Hearing Exhibit No. 19. The Consumer Advocate did not propose an adjustment to recognize any salary increases. The Consumer Advocate questioned the reasonableness of these salaries and wages and, therefore, did not propose any adjustment to the pensions and employee benefits. Miller testimony. The Company addressed the Consumer Advocate's position on rebuttal. Grantmyre Rebuttal Testimony.

(D) Contractual Services

Both the Company and the Staff proposed to annualize contractual services for engineering, accounting, legal and other service contracts. This adjustment reduced general expenses by \$6,974. The Company supported its adjustment and provided information concerning the allocation of the expense to Heater of Seabrook, Inc. Hilburn Rebuttal Testimony. See also Tweed Rebuttal Testimony.

(E) Insurance Expenses

The Company and Staff propose, to adjust insurance expense to reflect current levels in premiums, which would be a decrease in general expenses of \$1,190. The Consumer Advocate opposes this adjustment through witness Miller, who contends that the Company, through its proposed adjustment, is recognizing premiums through May and June, 1993.

(F) Other Adjustments

The Company and the Staff proposed to adjust the purchased power account to reflect annualized amounts related to operations, excluding office electricity. This adjustment amounted to increasing O&M expenses by \$1,163. No other party objected to this adjustment. The Company and the Staff proposed to adjust transportation expenses. This adjustment had the effect of increasing O&M Expenses by \$1,718. No party opposed this adjustment. The Company and the Staff proposed to reclassify Penalty Expense as a non-ratemaking item. This decreased General Expenses by \$28.00. No party objected to this adjustment. The Company and Staff proposed an adjustment of \$3,516 for Hurricane Hugo-related expenses. No party objected to the adjustment. The Company and the Staff proposed to adjust Taxes Other than Income Taxes to annualize Property Taxes, Payroll Taxes and Franchise Taxes. This adjustment increased Taxes Other than Income by \$26,652. No party objected to this adjustment. Both the Company and the Staff proposed to annualize revenue for the test year by decreasing operating revenue in the amount of \$17,953. No party objected to this adjustment. Both the Company and Staff proposed to adjust operation maintenance and repair expenses in the amount of \$529. No objection was raised to the adjustment. An adjustment to chemicals, freight, and miscellaneous expense of \$278 was proposed by both Company and Staff. No objection was raised. Both Company and Staff proposed an adjustment of (\$1,379) to office supplies. No party objected. An adjustment of (\$4,390) was

requested by the Company and Staff to telephone, postal, and miscellaneous supplies. No objection was raised. Finally, an adjustment to depreciation of \$19,313 was proposed by both Company and Staff. No party raised an objection.

12. The Company's records reflect that after accounting and pro forma adjustments to its operating revenues and expenses, its total income for return is \$84,167. Application of Company, Revised Exhibit C. The Staff calculated the Company's total income for return, after accounting and pro forma to be \$124,048. Hearing Exhibit No. 19.

13. The Company has applied for rates which will result in returns on rate base of 9.43% for water operations (Company's application, Revised Exhibit Q) and 9.01% for sewer operations (Company's application, Revised Exhibit R). Heater of Seabrook, Inc. requested the Commission to set its rates and charges based upon the return on rate base methodology. Company's Application, Page 2; Grantmyre testimony; Parcel testimony; and Tweed testimony. The applied-for rates would result in operating margins after interest of 7.93% for water operations and 9.94% for sewer operations, according to the Company. Company's application, Revised Exhibit S.

14. The Commission Staff calculated the operating margin, after interest, to be 7.12% under the proposed rates and assuming Staff's adjustments. Hearing Exhibit No. 19, as revised.

15. The Consumer Advocate proposes to increase operating income by \$222,506 to account for availability fees collected by

the Company. Neither Staff nor the Company proposed a similar adjustment. Miller Testimony. Both Staff and the Company propose a reduction in rate base of \$349,600 to remove the effect of availability fees from rate base and depreciable property as a contribution in aid of construction. Hearing Exhibit 19, Grantmyre Rebuttal Testimony.

16. The Consumer Advocate proposes the escrow of plant expansion and modification fees. Both the Company and Staff oppose this procedure.

CONCLUSIONS OF LAW

1. The Company is a water and sewer utility providing water and sewer service in its service area in Charleston County, South Carolina. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. §58-5-10 et seq. (1976).

2. A fundamental principle of the ratemaking process is the establishment of an historical test year with the basis for calculating a utility's rate base and, consequently, the validity of the utility's requested rate increase. While the Commission considers a utility's proposed rate increase based upon occurrences within the test year, the Commission will also consider adjustments for any known and measurable out-of-test year changes in expenses, revenues, and investments, and will also consider adjustments for any unusual situations which occurred in the test year. See, Parker v. South Carolina Public Service Commission, 280 S.C. 310, 313 S.E.2d 290 (1984), citing City of Pittsburgh v. Pennsylvania

Public Utility Commission, 187 P.A. Super. 341, 144 A.2d 648 (1958); Southern Bell v. The Public Service Commission, 270 S.C. 590, 244 S.E.2d 278 (1978).

3. The Company chose the test year ending March 31, 1992. The Commission Staff used the same test year in calculating its adjustments. The Commission is of the opinion that the test year ending March 31, 1992, is appropriate based on the information available to the Commission, and is therefore adopted.

4. The Commission concludes that the Staff's adjustments to the Company's operating expenses is appropriate. Accordingly, the Commission finds that the appropriate level of expenses for the Company for the test year under the present rates and after accounting and pro forma adjustments is \$1,024,244.

5. The Commission also concludes that the Staff's adjustments to the Company's operating expenses are appropriate. The Commission makes this conclusion based on the following legal principles and reasoning:

(A) Purchased Water Adjustment

The Commission concludes that Staff's adjustment to recognize the actual test year consumption is appropriate for ratemaking purposes. The Commission also concludes that Staff's adjustment recognizing 7.54% of non-account water is appropriate. The Staff's investigation revealed non-account water of 16.69%, due to a high pressure main leak that was on the edge of a marsh. Burgess Testimony. This is an inappropriately high amount of non-account water. As a check, the Commission Staff reviewed data from Kiawah

Island Utility, Inc. concerning its non-account water. The Kiawah system was chosen because Kiawah is very similar to Heater in operations, environment, and both companies purchase water from St. John's Water Company. The 1989 and 1990 data for Kiawah revealed that Kiawah's rate for non-account water averaged 7.54%. The Commission Staff used this number in making its adjustment. Order No. 91-231 in the last Heater of Seabrook docket adopted this figure, with which the Consumer Advocate and the Town of Seabrook agree. Miller testimony; Town of Seabrook statement. The Commission finds that Staff's investigation supports the non-account water percentage of 7.54%, and it is therefore adopted for this proceeding.

(B) Rate Case Expenses

The Commission concludes that it is not appropriate to include estimated rate case expenses for the present case for ratemaking purposes. The Company later, however, provided supporting documents for rate case expenses for the present docket up through the date of the hearing. In addition, one-third of the verifiable expenses for Docket No. 90-124-W/S were allowed. These were not permitted in that docket because they were not verifiable at that time. These expenses have now been verified. The Commission considered rate case expenses submitted through the hearing date only in its deliberations, and did not consider said expenses submitted after the hearing date. These were submitted too late for proper consideration by this Commission. Accordingly, the Commission Staff's figure is appropriate, and is therefore adopted.

The Consumer Advocate's adjustment is rejected.

(C) Salaries and Wages

The Commission concludes that Staff's adjustment to annualize salaries and wages properly reflects salary increases that were annualized for the test year and that the Staff properly annualized office salaries and wages for the test year. By recognizing salaries and wages, the Commission Staff properly recognized the intercompany salary allocations from the parent company, Heater Utilities, for all customer billing, accounting, payroll, and personnel administration. The Commission Staff properly recognized the annual salary increases, the reduction in the percentage of field salaries capitalized and the upgrading of the level of field personnel qualifications. As a result, the adjustment to pensions and employee benefits made by the Commission Staff is appropriate for ratemaking purposes. The Consumer Advocate's position must be rejected, because of the reasons stated in the rebuttal testimony of Company witness Grantmyre.

(D) Contractual Services

The rebuttal testimony of witness Hilburn addressed the concerns of the Consumer Advocate concerning the allocation of accounting costs. The Commission concludes that the adjustment made by the Commission Staff properly recognizes the amount included in the current years' financial statements for contractual services--accounting, which relates to the audit of the previous years' financial statements. The allocation methodology employed, as contained in the record, is sound and appropriate to recognize

the proper allocation of expenses between Heater Utilities and Heater of Seabrook and represents the allocation of the expense from Price-Waterhouse to the benefiting customers, the water customers and the sewer customers.

(E) Insurance Expenses

The Commission concludes that it must adopt Company and Staff's adjustment of \$1,190. Even though the premiums included may extend through May or June 1993, the Commission believes that the Company-Staff figure includes known and measurable post-test year expenses, which this Commission has historically recognized. See Southern Bell v. Public Service Commission, 244 S.E.2d 278 (S.C., 1978).

(F) Other Adjustments

The Commission concludes that since there were no objections to the other adjustments proposed by the Commission Staff, that these adjustments, as supported by the record, are appropriate for ratemaking purposes.

6. The Commission has historically recognized availability fees as a contractual matter between a developer and homeowners, and, therefore, a matter outside the Commission's jurisdiction. The Commission sees no reason to modify this position, and so holds. The Commission, therefore, rejects the Consumer Advocate's position that availability fees should be included in operating revenue, as well as the Consumer Advocate's position that any associated costs should not be included in operating expenses, if availability fees are not included in operating revenue. The Commission believes

that availability fees should be deducted from rate base and depreciable property, and, therefore, the Commission adopts Staff's and Company's proposal to remove \$349,600 from Company's rate base and depreciable property as a contribution in aid of construction. Hearing Exhibit 19, Grantmyre Rebuttal Testimony.

7. The Commission rejects the Consumer Advocate's proposal to order an escrow of plant expansion and modification fees. Although the Consumer Advocate addressed the issue on cross-examination, he presented no direct evidence supporting the proposal. The Commission must therefore reject the proposal.

8. Accordingly, the Commission concludes that the Company's appropriate operating expenses for the test year, after pro forma and accounting adjustments is \$967,955.

9. The Company's appropriate total income for return for the test year, after accounting and pro forma adjustments is \$124,048. Based upon the above determinations concerning the accounting and pro forma adjustments to the Company's revenues and expenses, the Commission concludes that the total income for return is as follows:

TABLE A
TOTAL INCOME FOR RETURN

Operating Revenues	\$1,090,994
Operating Expenses	967,955
Net Operating Income	<u>123,039</u>
Customer Growth at .82%	1,009
Total Income for Return	<u><u>124,048</u></u>

10. Under the guidelines established in the decisions of

Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net revenues. As the United States Supreme Court noted in Hope, a utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility and . . . that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." Bluefield, supra, at 692-693.

11. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of the rates of a public utility. For a water and sewer utility whose rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction, and book value in excess of investment, the Commission may decide to use the "operating ratio" and/or "operating margin" method for determining just and reasonable rates. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the net operating income for return by the total operating revenues of the

utility. This method was recognized as an acceptable guide for ratemaking purposes in Patton v. South Carolina Public Service Commission, 280 S.C. 288, 312 S.E.2d 257 (1984).

The Company proposed that a rate of return methodology be used as a ratemaking determinant. Witness Parcell testified to the appropriate cost of capital for the Company. Mr. Parcell presented a detailed analysis, however, no other party, including the Commission Staff, examined the Company's cost of capital in detail. The Town of Seabrook, through its witness, opposed the use of rate of return on rate base methodology. Either the operating margin or rate of return approach may be appropriate for Heater of Seabrook, Inc. since the Company's investment in rate base could be considered sufficient to earn a return, but without additional detailed testimony from the Staff or other parties, the Commission is not in a position to judge the credibility and reliability of the testimony of the sole rate of return witness.

A related issue is the appropriate capital structure to use for the Company. The Company proposed to use the capital structure of itself. This structure has a higher percentage of debt than that seen with the parent company, Minnesota Power and Light Company. The Town of Seabrook favors the use of the parent company's capital structure for this reason. Staff, however, recommends the adoption of the combined capital structure of both Minnesota Power and Light and Topeka Group, Inc. as of the latest available date of June 30, 1992, as well as their embedded cost of debt (8.18%). The Commission adopts Staff's recommendation as to

capital structure and embedded cost of debt, as being the most appropriate for a company such as Heater of Seabrook. Price testimony, Application; Statement of Town of Seabrook.

In any event, the Commission concludes that use of the operating margin is appropriate in this case, but will consider the rate of return on rate base approach in the Company's future rate filings. Based on the Company's gross revenues for the test year, after accounting and pro forma adjustments under the presently approved schedules, the Company's operating expenses for the test year after accounting and pro forma adjustments, and customer growth, the Company's present operating margin is as follows:

TABLE B
OPERATING MARGIN

BEFORE RATE INCREASE

Operating Revenues	\$1,090,994
Operating Expenses	967,955
Net Operating Income	<u>123,039</u>
Customer Growth at .82%	1,009
Total Income for Return	<u>124,048</u>
Operating Margin (After Interest)	(1.68%)

12. The Commission is mindful of the standards delineated in the Bluefield decision and of the need to balance the respective interests of the Company and of the consumer. It is incumbent upon this Commission to consider not only the revenue requirements of the Company but also the proposed price for the water and sewer service, the quality of the water and sewer service, and the effect of the proposed rates upon the consumer. See, Seabrook Island Property Owners Ass. v. S.C. Public Service Commission, 303 S.C.

493, 401 S.E.2d 672 (1991); S.C. Code Ann. §58-5-290 (1976).

13. The three fundamental criteria of a sound rate structure have been characterized as follows:

... (a) the revenue-requirement or financial-need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between costs incurred and benefits received.

Bonbright, Principles of Public Utility Rates
(1961), p.292.

14. Based on the considerations enunciated in Bluefield and Seabrook Island and on the fundamental criteria of a sound rate structure as stated in Principles of Public Utility Rates, the Commission determines that the Company should have the opportunity to earn a 7.12% operating margin. In order to have a reasonable opportunity to earn a 7.12% operating margin, the Company will need to produce \$1,253,967 in annual operating revenues.

TABLE C
OPERATING MARGIN

AFTER RATE INCREASE

Operating Revenues	\$1,253,967
Operating Expenses	<u>1,024,244</u>
Net Operating Income	229,723
Customer Growth	<u>1,884</u>
Total Income for Return	<u>231,607</u>
Operating Margin (After Interest)	7.12%

15. In fashioning rates to give the Company the required amount of operating revenues so that it will have the opportunity to achieve a 7.12% operating margin, the Commission has carefully considered the concerns of the Company's customers. As Mayor Thompson pointed out in Docket No. 90-124-W/S, the number of full-time residents compared to part-time residents would require a rate structure where the infra- structure revenue requirements are equitably spread over all users and potential users via a combination of a base rate charge structure and availability charges to all properties not yet developed but dependent upon the facility being in place. Mayor Thompson also recognized in that Docket that a commodity charge should represent a fair rate of return on cost at purchase and distribution of the purchased water. The rate structure and the Commission's treatment of availability fees recognizes the points made by Mayor Thompson in that Docket. The Commission recognizes that the proposed increase for residential and commercial water customers amounts to a 21.53% increase in the average customer's bill. The residential and the

commercial sewer charge, as proposed by the Company, would result in a 42.37% increase on the average residential and commercial customer bill. The rates designed herein consider the quality of the service provided by the Company to its customers and the need for the continuance of the provision of adequate service, as well as the impact of the increase on those customers receiving service and the need for conservation of water resources.

16. The Commission recognizes the capital improvements that have been made. Further, the Commission recognizes the other increased expenses experienced by the Company and that under the current rates, the Company is experiencing a negative operating margin.

17. The Commission concludes that while an increase in rates is necessary, the proposed increase is unreasonable and inappropriate. Accordingly, the Commission will design rates which will increase the base facility charge for meters less than one inch for water service to \$10.50 per month. All other metered charges for water customers will increase as proposed by the Company.

18. The Club at Seabrook Island presented the testimony of Louis Dragoone, acting Golf Course Superintendent, and Dr. Charles Peacock, an agronomist, which addressed the issue of the suitability of the effluent furnished by the Company for irrigation of the golf course owned by the Club. Dragoone and Peacock both testified that the effluent had an alkaline pH, and contained excessive amounts of salt and various elements. The witnesses

testified that the effluent was therefore unsuitable for irrigating the golf course and would eventually kill the grass on the course. Both witnesses also testified that the effluent was in violation of a contract between the Company and the club, which was approved by this Commission in September, 1992. The specific relevant language requires the Company to:

Operate and maintain the sewage treatment plant, holding pond, sewage transmission main, pumps, meter, and related facilities located up-stream from the P.O.D., in such a manner as to meet all of the requirement of Federal, state and local governments and that IT SHALL NOT PUMP INTO THE PONDS MATERIALS THAT WILL RENDER THE GOLF COURSE UNSUITABLE OR UNDESIRABLE FOR PLAY, OR THAT WILL KILL THE GOLF COURSE GRASS, OR THAT WILL REQUIRE OWNER TO OPERATE FURTHER TREATMENT FOR DISPOSAL ON THE WASTEWATER MANAGEMENT PROPERTY; (emphasis added) Par 5a, Page 6 of Agreement.

Upon examination of the evidence on this matter, the Commission must conclude that, based on the unrefuted testimony of Mr. Dragoone and Dr. Peacock, the Company is in violation of the contractual language in caps above. According to the testimony, the effluent, as it is, will eventually render the golf course unsuitable for play, will eventually kill the golf course grass, and requires, at this time, the owner of the golf course to operate further treatment for disposal on the golf course. The rebuttal testimony of Company witness Tweed simply does not refute the testimony of Club witnesses Dragoone and Peacock. For these reasons, the Commission hereby holds that the Company has until June 10, 1993 to choose between the following two alternatives:

1. The Company may continue to charge the Club at the rate

of \$.25 per thousand gallons of effluent, but the Company must provide further treatment for the effluent to bring it into compliance with the terms of the above-mentioned contract; or

2. The Company may provide the effluent to the Club at no charge and the Club would receive the effluent from the holding pond "as is." The Club would be solely responsible for any further treatment of the effluent prior to discharge on the golf course.

The Commission believes that this is a just and reasonable solution to the problem, and so orders it.

19. The Company's proposal to increase its residential sewer charge to \$30.00 is found to be unreasonable by the Commission. To design the rates to earn the appropriate level of revenues, the Commission concludes that the residential monthly sewer charge should be \$25.00 per single family house, condominium, villa, or apartment unit. As to the commercial rate for sewer service, the Commission concludes that the proposed rates of the Company would be just and reasonable, and the Commission therefore adopts same.

20. Based on the above considerations and reasoning, the Commission hereby approves the rates and charges as stated in this Order and attached hereto as Appendix A as being just and reasonable. The rates and charges approved are designed in such a manner in which to produce and distribute the necessary revenues to provide the Company the opportunity to earn the approved operating margin.

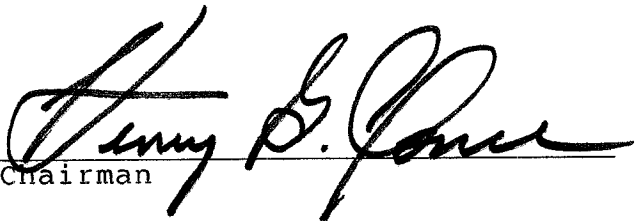
21. Accordingly, it is ordered that the rates and charges attached on Appendix A are approved for service rendered on or

after the date of this Order. The rate schedule is hereby deemed to be filed with the Commission pursuant to S.C. Code Ann. §58-5-240 (1976), as amended.

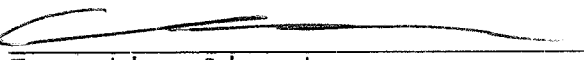
22. It is ordered that should the approved schedule not be placed into effect until three (3) months after the effective date of this Order, the approved schedule shall not be charged without written permission of the Commission. It is further ordered that the Company maintain its books and records for water and sewer operations in accordance with the NARUC Uniform System of Accounts for Class A and B water and sewer utilities, as adopted by this Commission.

23. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Deputy Executive Director

(SEAL)

APPENDIX A

HEATER OF SEABROOK, INC.
P.O. Drawer 4889
Cary, N.C. 27519
1-800-537-4865

FILED PURSUANT TO DOCKET NO. 91-627-W/S - ORDER NO. 92-1028
EFFECTIVE DATE: DECEMBER 12, 1992

SCHEDULE OF RATES AND CHARGES:

WATER

1. MONTHLY CHARGE -

A. Base Facility Charge for Zero Consumption -

<u>Meter Size</u>	<u>Base Monthly Charge</u>
<1.0"	\$ 10.50
1.0"	\$ 40.00
1.5"	\$ 80.00
2.0"	\$120.00
3.0"	\$240.00
4.0"	\$450.00
6.0"	\$750.00

B. Commodity Charge - \$2.50 per 1,000 gallons

When, because of the method of water line installation utilized by the developer or owner, it is impractical to meter each unit separately, service will be provided through a single meter and consumption of all units served through such meter will be averaged; a bill will be calculated based on that average plus the addition of the basic facility charge of \$10.50 per unit and the result multiplied by the number of units served by a single meter.

2. FIRE HYDRANT -

One hundred dollars (\$100.00) per hydrant per year for water service payable in advance. Any water used should be metered and the commodity charge in section one (1) above will apply to such usage.

3. NON RECURRING CHARGES -

- A. Water service connection per
single-family equivalent * \$200.00
- B. Plant impact fee per single-
family equivalent \$300.00
- C. The nonrecurring charges listed above are minimum
charges and apply even if the equivalency rating is
less than one (1), then the proper charge may be
obtained by multiplying the equivalency rating by the
appropriate fee. These charges apply and are due at
the time new service is applied for and/or initial
connection to the water system is requested.

* Unless prohibited by contract approved by the South
Carolina Public Service Commission.

4. RECONNECTIONS AND CONNECTIONS -

- A. Water reconnection fee \$ 40.00
- Customers who ask to be reconnected within nine
months of disconnection will be charged the monthly
base facility charge for the service period they were
disconnected.
- B. Customer account charge \$ 25.00
- One time fee to be charged to each new account to
defray cost of initiating service.

5. BILLING CYCLE -

All meters will be read and bills rendered on monthly basis
in arrears, unless otherwise provided.

SEWER

1. MONTHLY CHARGES -

- A. Residential - monthly charge per single family house, condominium, villa or apartment unit \$ 25.00
- B. Commercial - monthly charge based upon meter size:

<u>Meter Size</u>	<u>Base Monthly Charge</u>
<1.0"	\$ 25.00
1.0"	\$ 60.00
1.5"	\$ 120.00
2.0"	\$ 280.00
3.0"	\$ 500.00
4.0"	\$ 750.00
6.0"	\$1000.00

Commercial customers are those not included in the residential category above and include but not limited to hotels, stores, restaurants, offices, etc.

2. GOLF COURSE IRRIGATION -

Golf course irrigation using wastewater effluent -

\$.25 per 1,000 gallons

3. NONRECURRING CHARGES -

- A. Sewer service connection charge per single-family equivalent * \$200.00
- B. Plant impact fee per single-family equivalent \$300.00
- C. The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating is less than one. If the equivalency is greater than one(1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for and/or initial connection to the sewer system is requested.

* Except as otherwise prohibited by contract approved by the South Carolina Public Service Commission.

4. NOTIFICATION, CONNECTION AND RECONNECTION CHARGES -

- A. Notification Fee: A fee of \$8.00 shall be charged each customer to whom the Company mails the notice as required by Commission Rule R. 103-535.1 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating that cost.
- B. Customer Account Charge: One-time fee charged to each new account to defray costs of initiating service: \$17.25. If customer also receives water service, this charge will be waived.
- C. Reconnection Charge: \$250.00 pursuant to Commission Rule R. 103-532.4. Customers who ask to be reconnected within nine months of disconnections will be charged the monthly base charge for the service period they were disconnected.

5. BILLING CYCLE -

Bills will be rendered monthly in arrears.

GENERAL PROVISIONS FOR BOTH WATER AND SEWER

1. SINGLE FAMILY EQUIVALENT UNIT FOR CALCULATION OF NONRECURRING CHARGES -

- A. Water - A single-family equivalent unit is based upon a standard meter size of 5/8 inches and flows therefor.

Larger meter sizes increase the equivalency rating as follows:

<u>Meter Size</u>	<u>Ratio Equivalent</u>
5/8"	1.0
3/4"	1.0
1"	2.5
1 1/2"	5.0
2"	8.0
3"	16.0
4"	25.0

These equivalency ratings are to be used in calculating the water service connection and plant impact fee charges.

- B. Sewer - A single-family equivalent unit is based upon a publication of South Carolina Pollution Control Authority entitled "Guideline for Unit Contributory Loading to Wastewater Treatment Facilities" ("Guidelines") wherein suggested design of wastewater treatment plants are based upon the design assumption that a single-family unit will discharge 400 gallons of wastewater per day into the sewer collection facilities. These Guidelines will be used to calculate the single-family equivalency rating regardless of whether or not actual flows may be less. In this rate schedule the Guidelines are being used solely for determination of the sewer service connection and plant impact fee charges, not design purposes.